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DIRECTORATE OF  
INTELLIGENCE

# *Central Intelligence Bulletin*

**Secret**

**Nº 040**

14 June 1971

State Dept. review completed

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Approved For Release 2003/08/08 : CIA-RDP79T00975A019300020001-5

Approved For Release 2003/08/08 : CIA-RDP79T00975A019300020001-5

SECRET

No. 0141/71  
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# *Central Intelligence Bulletin*

## CONTENTS

25X6

LAOS: The Bolovens Plateau area was quiet as both sides recovered from last week's heavy fighting. (Page 3)

25X6

LATIN AMERICA: The "200-mile club" could imperil preparatory work for the 1973 Law of the Sea conference. (Page 6)

CENTRAL AMERICA: Honduras' new president has adopted a tough stand on regional problems. (Page 8)

LIBYA: Premier Qadhafi's latest speech has re-emphasized Libya's political independence. (Page 9)

JAPAN: World Bank bonds (Page 11)

INDONESIA - EASTERN EUROPE: Debt rescheduling (Page 11)

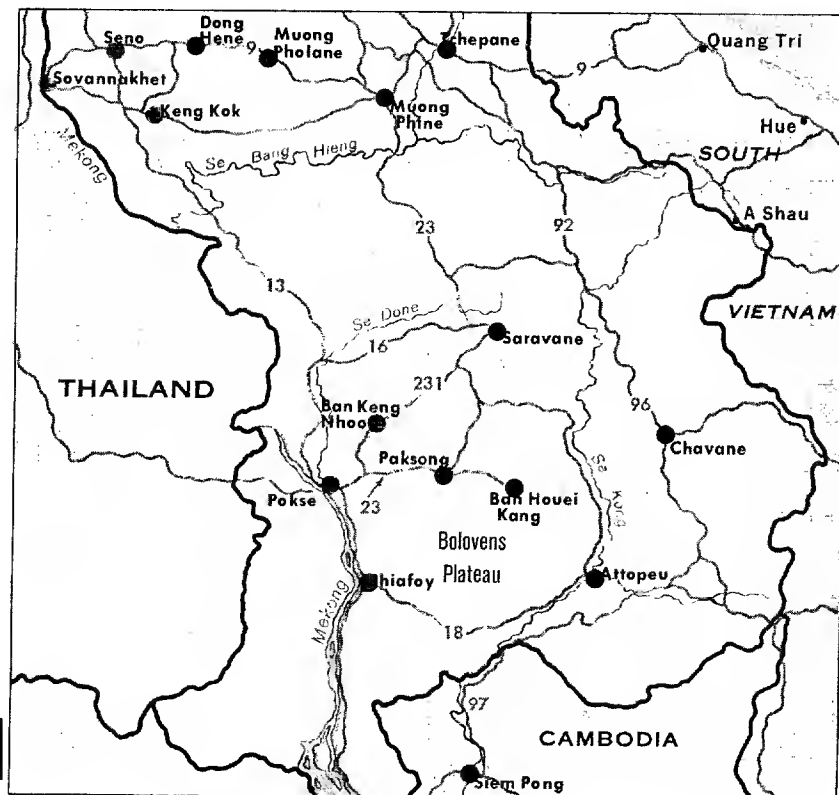
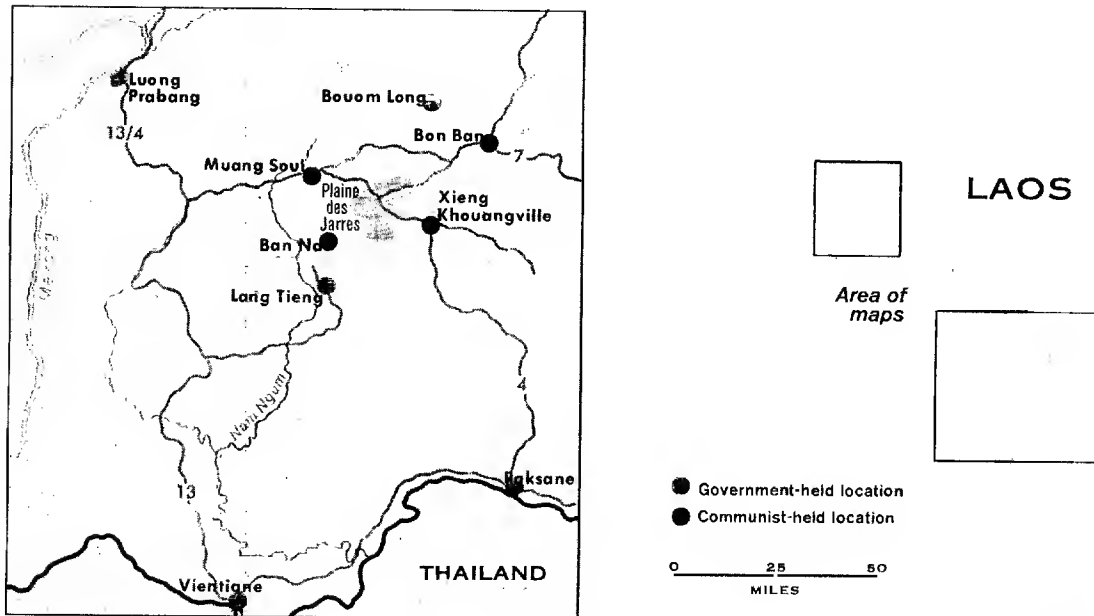
CHILE-USSR: Oil plant plans (Page 12)

BELGIUM-US: Landing rights controversy (Page 12)

SECRET



SECRET



551540 6-71 CIA

SECRET

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LAOS: No major action was reported in the Bolovens Plateau area over the weekend as both sides evidently recover from last week's heavy fighting.

Several government units that had been cut off filtered back to friendly lines, but no firm government casualty figures have yet been reported. It is not clear whether the effort to retake the central portion of the Bolovens will now be postponed indefinitely, although the Communists have also taken heavy losses as improved weather has facilitated US and Laotian air strikes.

In the central panhandle, there is some evidence that additional North Vietnamese troops may be pulling back from the Dong Hene area. Government irregular forces are moving eastward, and some patrols have moved into the outskirts of Dong Hene. Heavy rains are hampering overland movement, however, and it may be some time before government troops can take additional advantage of the reduction of Communist troop strength along Route 9.

In north Laos, reinforcements have been moved into the Bouam Long guerrilla base, which has been under heavy pressure for several weeks. Vang Pao's troops are still located on the southern portion of the Plaine des Jarres and have encountered only light enemy resistance. They continue to uncover small enemy supply caches, but have not yet moved toward their primary objective, the high ground just west of the Plaine.

25X1

14 Jun 71

*Central Intelligence Bulletin*

3

~~SECRET~~

Next 1 Page(s) In Document Exempt

~~SECRET~~

LATIN AMERICA: The territorial seas issue is gaining currency in several South American capitals, and the emerging Latin American position could imperil the preparatory work for the 1973 Law of the Sea conference.

Brazil, a recent entrant to the 200-mile club, is actively proselytizing for the 200-mile stand throughout Latin America and has warned all foreign fishing vessels to leave its claimed waters. It hopes to forge a strong united front approach to the scheduled 1973 conference. During a visit to Brazil, Colombian Foreign Minister Vasquez signed a communiqué that, without recognizing the 200-mile claim, agreed that nations should defend their rights in their respective jurisdictions. Vasquez, in a later interview, also responded to press accounts of the US Congress' decision to delay US participation in the International Coffee Agreement because of Brazil's recent claim. He noted--correctly--that the action will only provoke Latin American solidarity.

Uruguay has announced it is undertaking an initiative to create an organization for the defense of the 200-mile limits claimed by Argentina, Brazil, and Uruguay. The proposed group would parallel the South Pacific Commission, which Chile, Peru, and Ecuador established in 1952 to coordinate their own 200-mile stand. Peruvian Foreign Minister Mercado has already commented favorably on the Uruguayan plan and indicated Peru will propose a mechanism for permanent coordination between the two groups.

Reflecting the already strong views of the Latin American 200-mile claimants, Chilean UN delegate Zegers maintains his group will pose serious problems for the superpowers at the July meeting of the UN seabeds committee, which is making preparations for the 1973 conference. He asserts that if the Latin Americans are not permitted to chair

14 Jun 71

Central Intelligence Bulletin

6

~~SECRET~~



SECRET

the subcommittee charged with recommending territorial waters limits, they will seek priority consideration of an international maritime organization, a concept that deeply troubles the USSR. Moreover, the US would be confronted with discussion of "peaceful uses" of the ocean--a delicate subject that includes intelligence-gathering activities. The Latin Americans could thus promote a disruptive July session that would lead to postponement of the 1973 conference, and thereby afford them more time to win additional 200-mile adherents.


25X1

25X1

14 Jun 71

Central Intelligence Bulletin

7

SECRET

SECRET

CENTRAL AMERICA: The newly inaugurated president of Honduras, Ramon Cruz, has adopted a tough and seemingly inflexible stance on regional problems.

Cruz has stated categorically that he will not consider Central American Common Market issues until the border dispute with El Salvador is resolved. Moreover, he has indicated his preference for an international judicial settlement, possibly through the OAS or the International Court of Justice, rather than bilateral negotiations. Because El Salvador has a weaker legal case, it is not enthusiastic about border discussions in general, however, and would be opposed to international arbitration.

Past efforts to solve bilateral and Common Market problems appear to have foundered because too narrow an approach was taken and possible trade-offs were thereby precluded. Cruz may be falling into the same trap with his stress on a single issue and on a "legal" rather than a "political" settlement. Unless a new sense of realism is developed soon, the beginnings of the Salvadoran election campaign next month will further erode chances for an agreement before 1972.

25X1

14 Jun 71

*Central Intelligence Bulletin*

8

SECRET

SECRET

LIBYA: Premier Qadhafi's latest speech, which blasted great powers and Arab states alike, has re-inforced Libya's independent political stance.

The speech on 11 June--the first anniversary of the US evacuation of Wheelus Airbase--was tailored to the local audience and directed against US policies. Qadhafi raked up the well-worn threat that relations cannot continue if the US "scorns Arab interests" and pursues its policy of supplying arms to Israel. A new and perhaps ominous note was sounded by his reference to "the course of action" that the Libyan people will want to take against the US. To date, US interests--primarily oil companies--have survived under Libya's strongly held concept of nonalignment. As Qadhafi's sense of impotence in Arab politics grows, however, his mounting frustration may well find a convenient outlet in some anti-US gesture.

The two positive aspects of the speech--the offer of diplomatic recognition to Communist China and the announcement of the future formation of the Arab Socialist Union (ASU) as Libya's sole political organization--fell somewhat flat. The back-handed recognition of Communist China was cast in uncomplimentary language and there is no evidence of official contacts prior to the speech. Peking radio reported the recognition offer without comment, but the Chinese probably will take diplomatic soundings now to discover what Libya has in mind. The ASU, which Qadhafi had promised earlier as a means to develop popular participation in policy-making, presumably will be as much a rubber stamp as its counterpart in Egypt.

The Premier also dealt harshly with the Soviet Union, associating it with a potential threat of imperialist domination of Arab countries and boasting that only Soviet diplomatic personnel were resident in Libya. Libyan friendship with the USSR remains dependent upon Moscow's dealing with Arab

14 Jun 71

*Central Intelligence Bulletin*

9

SECRET

~~SECRET~~

nations as equals, he said. Egypt was implicitly criticized for its recent treaty with the USSR which, Qadhafi intimated, commits Cairo to live under Soviet influence.

Relations with the British might still be worked out, Qadhafi said, if they withdraw quickly from the Persian Gulf and settle the current arms contracts squabble with Libya. France alone of the great powers was not mentioned. Lesser Arab states--especially Jordan--were castigated for their laxness in pursuing the Libyan goal of pan-Arab unity.

25X1

25X1

14 Jun 71

*Central Intelligence Bulletin*

10

SECRET

SECRET

NOTES

JAPAN: The government has agreed that World Bank bonds worth \$30 million may be sold in the Tokyo money market for the first time. In addition, Japan soon will make a direct \$20-million loan to the bank, bringing such extensions to the bank during the past two years to nearly \$600 million. These transactions increase Japan's capital outflows, thereby somewhat relieving foreign pressure to reduce balance-of-payments surpluses without resorting to less popular trade liberalization measures or revaluation of the yen. [REDACTED]

25X1

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INDONESIA - EASTERN EUROPE: Indonesian Foreign Minister Malik has successfully concluded agreements, mainly on Indonesia's terms, to reschedule debt payments totaling over \$240 million to East Germany, Hungary, Czechoslovakia, and Poland. Although terms have not been made known in every case, it is likely that in all cases they conform to the agreement already arrived at with the USSR, which accounts for more than a third of the \$1.6 billion owed in total principal. This agreement provides for a 30-year repayment period for principal covering all short-, medium-, and long-term debt, and repayment of contractual interest over a 15-year period beginning in 1985. The East European willingness to accept Djakarta's terms presumably was based on the realization that payment on Indonesia's terms is better than no payment at all. [REDACTED]

25X1

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14 Jun 71

Central Intelligence Bulletin

11

SECRET

~~SECRET~~

CHILE-USSR: The Chilean National Petroleum Enterprise (ENAP) is going ahead with plans to build a lubricating base oil plant financed largely by a long-standing \$42-million Soviet credit. ENAP planning and engineering specialists are now in the USSR discussing the project, and a Soviet group is scheduled to visit Chile in the near future to begin a feasibility study. The plant, which will take two to three years to build, will be Chile's first for the manufacture of lubricating base oils. Such base oils are currently imported into Chile by US companies for formulation into finished lubricants in their own plants. [REDACTED]

25X1

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BELGIUM-US: The long-smoldering Belgian resentment over the unwillingness of the US to grant landing rights in Chicago to Sabena Airlines has finally culminated in a retaliatory move. Belgium's Ministry of Communications announced the abrogation, beginning in October 1972, of the civil air agreement that permits reciprocal landing rights in Brussels and New York for airlines of the two countries. Although partially designed to assuage domestic criticism of governmental inaction, the Belgian tactic probably aims mainly at providing leverage for a change of US policy. [REDACTED]

25X1

25X1

14 Jun 71

Central Intelligence Bulletin

12

SECRET

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